CEE Market Insights

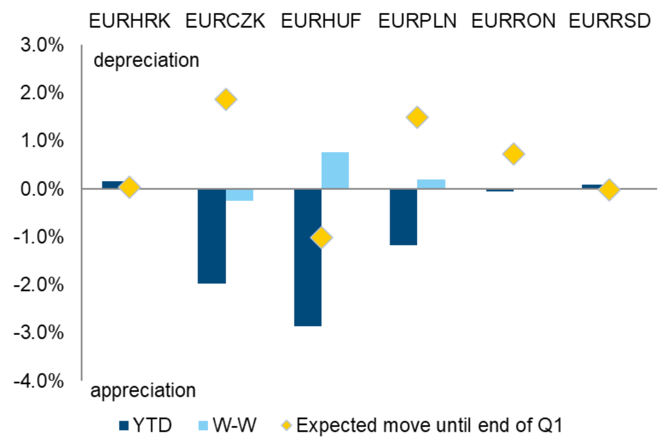
More tightening is on its way in Hungary

This week in CEE

This week's defining event will be the Hungarian central bank meeting on Tuesday. Given elevated inflation that even surprised on the upside in December as well as upside risks to the CPI development in the near term, more tightening is warranted. The MNB is likely to raise the key rate by 30bps to 2.7% and stress further tightening to come. The one-week deposit facility rate on the weekly tender, which has become the effective rate, will also most probably increase by 30bps to 4.3% on Thursday, thus keeping the difference between the two rates at 160bp. Furthermore, several monthly indicators will be released across CEE. December retail sales likely marked brisk rates of growth, as we expect them in the double-digit region in Croatia, Poland and Slovenia. In fact, Slovenian retail trade may have risen by 30% y/y as there is a strong base effect at play from the lockdown in late 2020. Unemployment probably remained unchanged in both Hungary and Poland at year-end, as unemployment rates should stand at 3.7% in the former and 5.4% in the latter (domestic measure). Slovak producer prices are thought to stress the high inflationary pressures as we expect them to come in at just over 14% y/y for December. Finally, Poland will be the first country in the region to release FY21 GDP growth and we expect it to land at 5.5% marking a strong post-crisis recovery. Upside surprise cannot be ruled out, due to unexpectedly solid performance of economy in last quarter of 2021.

Monday	Tuesday	Wednesday	Thursday	Friday
PL: Retail sales	**HU: Central bank**	**PL: FY21 GDP, Unemployment**	**HU: 1W depo rate, Unemployment**	**HR, SI: Retail sales**
RS: Wages			**SK: PPI**	
HU: Bills	**RS: 2024 bonds** **CZ: 2029, 2032, 2037 Bonds**	**PL: 2024, 2026, 2027, 2031, 2032 Bonds** **RO: 2024, 2029 Bonds** **CZ: Bills**		

FX market

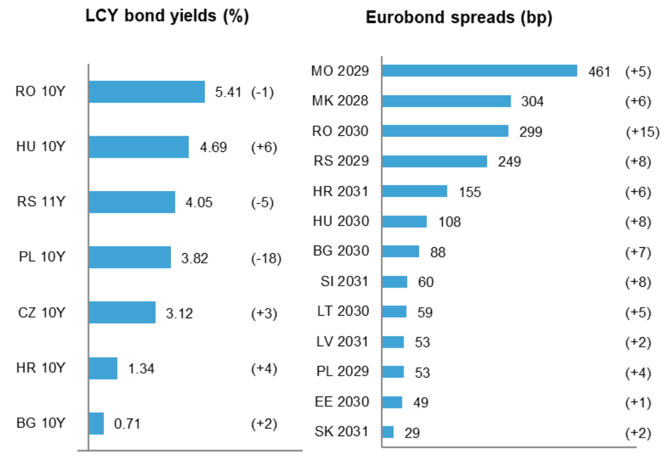


Source: Bloomberg, Erste Group Research

FX market developments

Despite increased global volatility, the VIX index has risen sharply since the start of the year, while CEE currencies are extending their gains, as they continue to benefit from the stabilization of the US dollar as well as regional monetary policy. While the Hungarian forint gained as much as 3.4% against the euro in the first three weeks of January, investors are currently in wait-and-see mode ahead of this week's rate setting meeting. Although the uncertainty around the upcoming decision is high, we expect the Hungarian central bank to raise the key rate by 30bp to 2.7%, while keeping the interest rate corridor unchanged. However, the weekly tender is more important, and it seems likely that, after a three-week pause, the MNB will opt for a 30bp increase of the one-week depo rate to 4.3%. The EURCZK hit a new 10-year high just shy of 24.20 on the back of hawkish communication from the central bank and improved sentiment. Although the koruna continues to strengthen, there have been no indications so far from the central bank that the appreciation could offset some of the future rate hikes. The zloty is holding around a 4-month high at 4.53 vs. the EUR, while other CEE currencies remained broadly unchanged.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Government bond yields and spreads on Eurobonds in CEE somewhat increased in a w/w comparison, despite a strong rally in the second half of last week. Poland was the only outlier, as the yield curve shifted down 15-20bp, supported by dovish comments from the new MPC candidate. Romania successfully placed its first dual tranche (5Y and 10Y) of Eurobonds this year, raising USD 2.41bn ahead of a maturing USD 2bn issue, which is due on February 7. The total demand stood at USD 4.6bn. There is still a long way to go, as the government plans to borrow EUR 10bn on international markets in total this year. CEE governments will continue in their local heavy issuance this week as well. Czechia will reopen CZGBs 2029, 2032, 2037, Poland will sell POLGBs 2024, 2027, 2032, and 2026, 2031 floaters, Romania will reopen ROMGBs 2024, 2029, and Serbia will sell 2024 bonds. On top of that, Hungary and Czechia will issue T-bills.

In case you missed

HR: Inflation accelerated in December.
PL: Strong industry at end of 2021.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
24. Jan		**RS**	Wages (y/y)	Nov			2.90%	
	10:00	**PL**	Retail Sales (y/y)	Dec	18.60%	**16.80%**	21.20%	Retail sales to maintain double-digit growth.
25. Jan	**14:00**	**HU**	Central Bank Rate	Jan 25	2.7%	**2.70%**	2.40%	Given unpleasant inflation surprise in December and upside risks on CPI development, tightening cycle will probably continue with further 30bp increase in policy rate.
26. Jan		**PL**	GDP Annual	2021	5.5%	**5.50%**	-2.50%	Polish economy to mark strong post-crisis recovery. Upside surprise cannot be ruled out, due to unexpectedly solid performance of economy in last quarter of 2021.
	10:00	**PL**	Unemployment Rate	Dec	5.40%	**5.40%**	5.40%	Unemployment rate to remain unchanged in December.
27. Jan		**HU**	Unemployment Rate	Dec	3.60%	**3.70%**	3.6%	Labor market processes probably did not change much in December.
	9:00	**SK**	PPI (y/y)	Dec		**14.10%**	13.90%	We expect rising trend to continue on y/y % basis. There are no signs of deceleration and producer prices remain elevated.
	9:30	**HU**	One-Week Deposit Rate	Jan 27	4.30%	**4.30%**	4.00%	
28. Jan	**10:30**	**SI**	Retail Sales (y/y)	Dec		**30.00%**	41.00%	Headline figure expected to maintain strong growth pace.
	11:00	**HR**	Retail Sales (y/y)	Dec		**10.00%**	5.20%	Retail trade growth expected to accelerate in December.

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

Forecasts

Government bond yields

	current	2022Q1	2022Q2	2022Q3	2022Q4
Croatia 10Y	0.7	0.6	0.7	0.7	0.8
spread (bps)	81	66	63	63	64
Czechia 10Y	3.1	3.0	2.9	2.8	2.7
spread (bps)	319	301	285	273	255
Hungary 10Y	4.7	4.6	4.5	4.4	4.3
spread (bps)	475	461	448	428	419
Poland 10Y	3.8	3.40	3.30	3.20	3.10
spread (bps)	389	346	328	313	299
Romania10Y	5.4	5.1	4.9	4.8	4.7
spread (bps)	548	516	488	473	459
Slovakia 10Y	0.3	0.2	0.3	0.4	0.4
spread (bps)	32	21	23	28	29
Slovenia 10Y	0.42	0.35	0.40	0.45	0.45
spread (bps)	49	41	38	38	34
Serbia 5Y	3.2	3.5	3.4	3.2	3.1
spread (bps)	330	356	333	313	299
DE10Y*	-0.07	-0.06	0.02	0.07	0.11

* Spreads based on Bloomberg consensus forecast

FX

	current	2022Q1	2022Q2	2022Q3	2022Q4
EURHRK	7.53	7.53	7.48	7.48	7.53
EURCZK	24.37	24.85	24.68	24.53	24.44
EURHUF	358.21	355.00	355.00	350.00	350.00
EURPLN	4.53	4.60	4.58	4.56	4.55
EURRON	4.95	4.98	5.01	5.05	5.08
EURRSD	117.58	117.60	117.60	117.60	117.60
EURUSD	1.13	1.15	1.15	1.15	1.15

3M Money Market Rate

	current	2022Q1	2022Q2	2022Q3	2022Q4
Czechia	4.25	4.30	4.23	3.99	3.74
Hungary	4.19	4.80	4.70	4.60	4.30
Poland	2.85	3.25	3.50	4.00	4.25
Romania	3.05	3.25	3.75	4.00	3.75
Serbia	1.00	0.93	0.94	0.94	0.95
Eurozone	-0.55	-0.54	-0.54	-0.54	-0.54

Key Interest Rate

	current	2022Q1	2022Q2	2022Q3	2022Q4
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	3.75	4.25	4.25	4.00	3.75
Hungary	2.40	3.30	3.50	3.50	3.50
Poland	2.25	3.00	3.25	3.75	4.00
Romania	2.00	2.25	2.75	3.00	3.00
Serbia	1.00	1.00	1.00	1.00	1.00
Eurozone	0.00	0.00	0.00	0.00	0.00

Real GDP growth (%)

	2020	2021f	2022f	2023f
Croatia	-8.1	10.4	4.6	3.8
Czechia	-5.8	2.3	3.8	4.7
Hungary	-4.7	6.7	4.7	4.5
Poland	-2.5	5.5	4.6	4.2
Romania	-3.7	6.4	4.0	5.0
Serbia	-0.9	7.3	4.5	4.5
Slovakia	-4.4	3.0	4.2	3.7
Slovenia	-4.2	6.8	4.4	3.8
CEE8 avg	-3.8	5.4	4.3	4.4

Average inflation (%)

	2020	2021f	2022f	2023f
Croatia	0.1	2.6	3.4	1.8
Czechia	3.2	3.8	5.0	2.1
Hungary	3.3	5.1	5.5	3.5
Poland	3.4	5.1	7.4	5.1
Romania	2.7	5.0	6.8	3.6
Serbia	1.6	4.1	5.1	2.6
Slovakia	1.9	3.2	5.0	3.5
Slovenia	0.0	1.9	2.6	1.8
CEE8 avg	2.8	4.5	6.1	3.8

Unemployment (%)

	2020	2021f	2022f	2023f
Croatia	7.5	8.2	7.1	6.6
Czechia	2.6	3.0	2.8	3.0
Hungary	4.1	4.1	3.8	3.5
Poland	5.9	6.0	5.5	5.4
Romania	6.0	5.5	5.2	5.1
Serbia	9.7	11.3	10.4	10.0
Slovakia	6.7	7.0	6.4	5.7
Slovenia	5.0	4.8	4.6	4.3
CEE8 avg	5.4	5.5	5.1	5.0

Public debt (% of GDP)

	2020	2021f	2022f	2023f
Croatia	87.3	81.2	78.0	76.3
Czechia	37.7	42.2	43.4	45.1
Hungary	80.1	79.5	76.7	74.8
Poland	57.5	56.1	55.0	52.0
Romania	47.4	50.0	50.3	50.7
Serbia	57.0	54.7	53.1	51.1
Slovakia	59.7	62.9	61.7	60.1
Slovenia	79.8	76.4	74.6	71.5
CEE8 avg	57.1	57.3	56.6	55.1

C/A (%GDP)

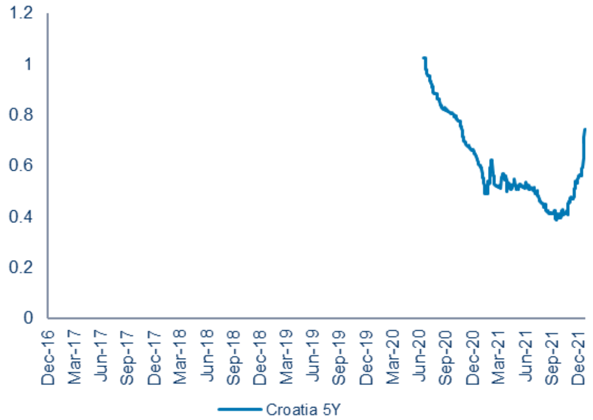
	2020	2021f	2022f	2023f
Croatia	-0.1	2.9	2.2	1.4
Czechia	3.6	0.3	1.1	1.2
Hungary	-1.6	-2.8	-3.6	-2.3
Poland	3.5	-1.1	-0.6	0.3
Romania	-5.0	-6.5	-6.1	-5.9
Serbia	-4.1	-3.5	-3.5	-3.3
Slovakia	0.1	-1.1	-0.7	-1.3
Slovenia	7.4	4.8	4.5	4.3
CEE8 avg	1.1	-1.7	-1.4	-0.9

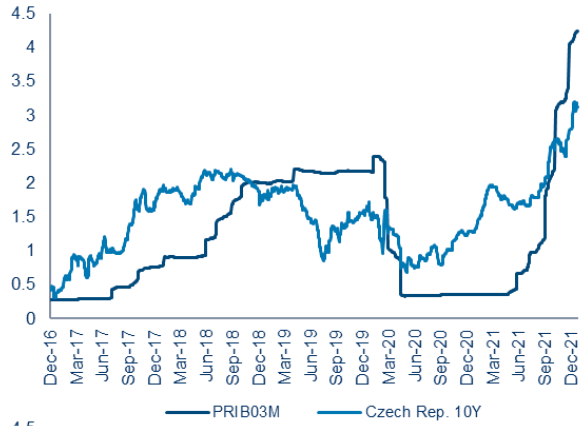
Budget Balance (%GDP)

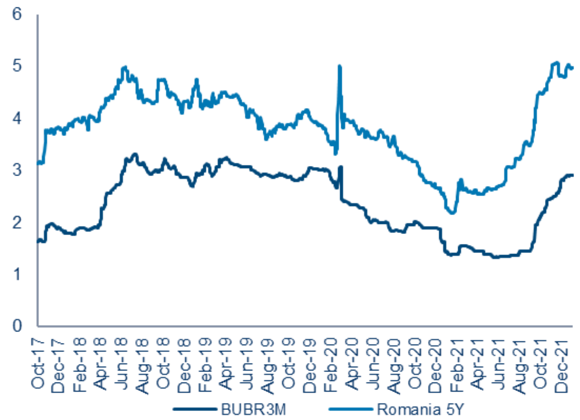
	2020	2021f	2022f	2023f
Croatia	-7.4	-4.5	-2.9	-2.5
Czechia	-5.6	-6.8	-4.1	-2.5
Hungary	-8.0	-7.6	-5.1	-3.9
Poland	-7.0	-2.1	-3.3	-3.0
Romania	-9.4	-7.8	-6.2	-5.2
Serbia	-8.0	-4.5	-3.0	-1.5
Slovakia	-5.5	-6.0	-4.0	-2.5
Slovenia	-8.4	-7.0	-5.0	-3.3
CEE8 avg	-7.3	-5.0	-4.2	-3.3

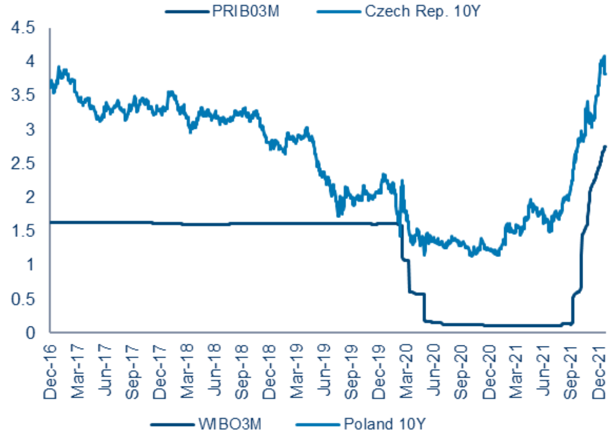
Source: Bloomberg, Erste Group Research

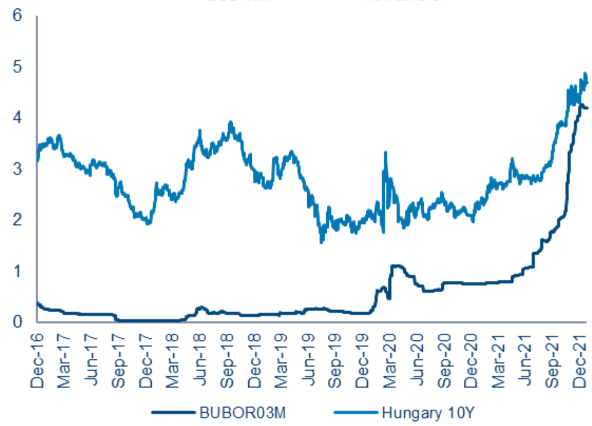
Appendix

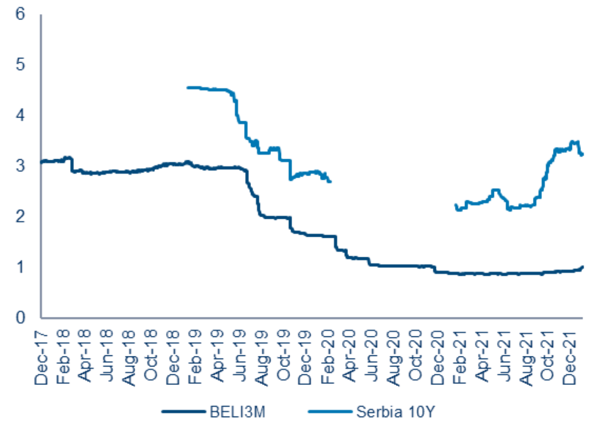


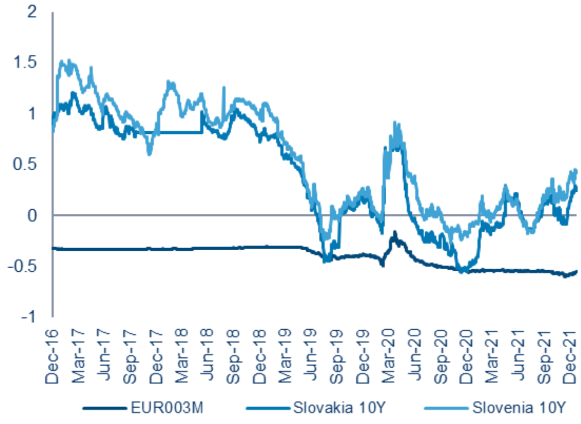












Source: Bloomberg, Erste Group Research

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